AR13

1980 Annual Reports

PEGASUS EXPLORATIONS LIMITED
ARGO GOLD MINING INC.

Leach pad loaded with ore undergoes spraying with a weak cyanide solution as key step in gold and silver recovery process.

Precipitate from the leaching process is converted into Dore bullion in a preliminary refining process.

To Our Shareholders:

The success achieved in the first season of full scale gold and silver heap leaching operations on the Montana properties of Pegasus Explorations Limited and Argo Gold Mining Inc. and attractive opportunities for expansion has led Directors to seek Shareholder and Regulatory approval for the amalgamation of the companies into a new corporate entity to be known as Pegasus Gold Ltd.

Because of the proposed amalgamation, this report combines the Annual Report to Shareholders that would have been issued separately by the two existing companies. We urge Shareholders and members of the investment community to review thoroughly this Report and the amalgamation agreement appended to the Information Circular distributed to Shareholders.

Ratification of the proposal is expected at the Annual and Extraordinary General Meetings of Shareholders of both companies which are scheduled to be held in Vancouver, B.C., on March 27, 1981.

Common shares are proposed to be exchanged on the basis of one share of the amalgamated company for each share of the existing Pegasus and 1.1 shares of the amalgamated company for each share of Argo. Should the amalgamation become effective, Pegasus Gold Ltd. will be capitalized at 10,000,000 shares, of which 5,412,852 shares will be issued and outstanding.

For the past three years, the two operating companies have developed and placed into production commercial heap leaching mining operations on ore bodies within a few miles of each other near Zortman, Montana. While separately incorporated, Pegasus and Argo have common management and generally interlocking Boards of Directors.

In the development of their respective open pit operations, the companies have shared expertise and technological data as well as operating facilities. With the achievement of most pre-operational and first year production objectives, the amalgamation measure was advanced to integrate the assets and business operations of the two companies and create a strong, single corporate entity.

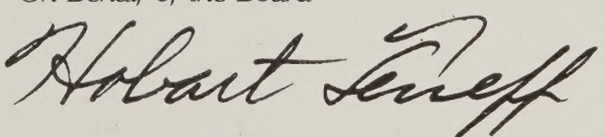
Pegasus Gold Ltd. is projected to rank in the top ten existing gold producers in the United States and Canada with current estimated proven and probable recoverable reserves of approximately 720,000 ounces of gold. Recoverable silver reserves are in the 7,500,000 ounce range.

These conservatively-estimated recoverable reserves are based on developed proven and probable tonnages in the range of 17 to 18 million tons on each of the Pegasus and Argo holdings. The average grade of the Pegasus ore body is 0.027 ounces of gold and 0.896 ounces of silver per ton, and for Argo of 0.032 ounces of gold and 0.332 ounces of silver per ton.

Management is confident reserves can be expanded substantially. Already underway are the initial phases of a $500,000 exploration program designed to meet this objective. The program is expected to develop possible extensions of known zones of oxide mineralization, both laterally and at depth, and also will explore the potential of sulphide mineralization known to underlie the oxide deposits.

Your Directors also have confidence that the emerging new company, with a 59.5 percent interest in the Argo "Zortman" property and a 48.4 percent interest in the original Pegasus "Landusky" property, will rapidly realize its full potential and become a significantly profitable, long term gold and silver producer.

On Behalf of the Board



HOBART TENEFF, President
Argo Gold Mining Inc.
Pegasus Explorations Limited

Vancouver, B.C.
March 4, 1981

Ore-loaded truck enroute to leach pad and drill utilized in road building are typical of the heavy duty equipment required in an open pit mining operation.

Report to Shareholders

Full scale leaching operations at the Company's gold and silver property located in the Little Rocky Mountains near Landusky, Montana commenced in August of 1979. Excellent progress has been achieved, particularly during 1980 which was the first full operating year.

Gross property revenues to December 31, 1980 amounted to $14,172,311 and Pegasus' share of net after-tax earnings was $2,937,280 or $1.32 per share. Through its wholly-owned subsidiary, Landusky Mining Inc., Pegasus has a 48.4 percent interest in the mining operation.

Included in 1980 revenues was Pegasus' share of the proceeds from the sale of 18,944 ounces of gold and 22,708 ounces of silver. Average prices received for the year were U.S. $626.70 per ounce for gold and U.S. $16.15 per ounce for silver. 5,179 ounces of silver remained in inventory at year-end.

During the 1980 operating year, 615,000 tons of ore were added to the 500,000 tons in place at the end of 1979. In addition, the Company mined 121,000 tons of low grade ore and 603,000 tons of waste. A major improvement in the processing chain was the installation of primary recovery furnaces at the mine site to enable precipitate to be refined into Dore bullion. Previously, precipitate was shipped to California for final processing into pure gold and silver ingots.

In addition to initiatives designed to improve upon the tested techniques utilized in the heap leaching process, the Company is aggressively pursuing other cost saving measures with an objective to reduce mining-processing costs experienced in 1980 by approximately 30 percent by the end of 1981.

The anticipated cost reductions largely are expected to be achieved following expiry in mid-1981 of the original mining and hauling contract entered into with a local contractor, and through economies of scale as a result of plans for a mining rate in excess of the 1.3 million tons of ore and waste mined during 1980.

The Company's senior professional staff was strengthened during the year with the appointment of Mr. John J. Crowhurst as Executive Vice President and Chief Operating Officer. Mr. Crowhurst formerly was Executive Vice President, Operations for McIntyre Mines Limited.

The sudden and unexpected death of Mr. Edgar A. Scholz on April 9th was a shock and a loss to the Company and his associates. Mr. Scholz had served as a Director and Senior Officer for several years and had made a major contribution to the success of the initial planning and development of the Landusky property.

Mr. Peter R. Kutney, President of Coseka Resources Ltd. of Calgary was appointed to the Board of Directors in April and we look forward to a long association.

Outlook

Despite the recent downtrend in world prices for gold and silver, your Directors are confident the future has never been brighter for Shareholders of Pegasus Explorations Limited. We have successfully emerged as an operating mine with a proven, economically viable method of extracting gold and silver from low grade ore. Known reserves are adequate for many years of operations and the potential for substantially extending reserves is excellent. Many benefits will accrue as a result of the proposal to amalgamate with Argo Gold Mining Inc.

These several factors along with the positive long term outlook for bullion prices suggest the development of our property into an operating mine was propitiously timed.

On Behalf of the Board

Hobart Teneff

HOBART TENEFF, President

Vancouver, B.C.
March 4, 1981

PEGASUS EXPLORATIONS LIMITED

Consolidated Balance Sheet *December 31, 1980*

ASSETS	1980	1979
CURRENT ASSETS		
Cash	$ 31,051	$ 83,942
Accounts receivable	7,073	6,954
Term deposits	1,250,000	—
Accrued interest	1,199	82,129
Refundable deposit	5,950	5,850
Advances to Landusky Partners	4,880	—
Advances to Zortman Partners	53,435	52,537
Advances to Argo Gold Mining Inc.	30,400	—
	1,383,988	231,412
INVESTMENT IN LANDUSKY PARTNERS		
Partnership contribution (Note 2)	4,896,740	1,083,563
Advances (Note 3)	2,820,175	1,367,937
	7,716,915	2,451,500
FIXED ASSETS (Note 4)	53,461	151,874
INCORPORATION COSTS	—	202
DEFERRED CHARGES	108,432	—
	$9,262,796	$2,834,988
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 36,249	$ 14,184
Contract payable, secured	—	3,141
Income taxes payable	721,799	—
	758,048	17,325
DEFERRED INCOME TAXES (Note 5)	378,733	69,848
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)	5,300,317	2,859,397
RETAINED EARNINGS (DEFICIT)	2,825,698	(111,582)
	8,126,015	2,747,815
	$9,262,796	$2,834,988

APPROVED BY THE DIRECTORS:

Director

Director

Consolidated Statement of Earnings and Retained Earnings

Year-Ended December 31, 1980

	1980	1979
Revenue		
Share of income of Landusky Partners	$3,813,177	$ 402,923
Interest income	319,524	90,053
Other income	3,142	8,720
	4,135,843	501,696
Expenses		
Accounting and legal	18,491	35,177
Depreciation	113,385	123,258
Incorporation costs written off	202	—
Interest and exchange	(3,281)	(5,386)
Management fees	1,302	—
Other professional fees	3,112	6,000
Office and miscellaneous	1,893	2,537
Printing	5,871	3,226
Public relations	3,031	—
Stock exchange fees	707	637
Sundry prospect	7,597	—
Telephone	169	104
Transfer agency fees	14,286	4,030
Travel	1,114	—
	167,879	169,583
Earnings before income taxes	3,967,964	332,113
Provision for income taxes		
Current	721,799	—
Deferred (Note 5)	308,885	69,848
	1,030,684	69,848
NET EARNINGS FOR YEAR	2,937,280	262,265
Deficit, beginning of year	(111,582)	(373,847)
RETAINED EARNINGS (DEFICIT), END OF YEAR	$2,825,698	$ (111,582)
Average shares outstanding	2,231,679	1,897,500
Earnings per share	$1.32	$0.14

Consolidated Statement of Changes in Financial Position

Year-Ended December 31, 1980

	1980	1979
SOURCE OF WORKING CAPITAL		
From operations		
Net earnings for year	$2,937,280	$ 262,265
Add (Deduct): items not involving current funds		
Depreciation	113,385	123,258
Deferred income taxes	308,885	69,848
Incorporation costs written off	202	—
Share of income of Landusky Partners	(3,813,177)	(402,923)
	(453,425)	52,448
Amount deemed paid up on shares issued for services	60,390	—
Shares issued for cash	2,380,530	1,121,000
	1,987,495	1,173,448
APPLICATION OF WORKING CAPITAL		
Advances to Landusky Partners	1,452,238	1,147,475
Additions to fixed assets	14,972	4,556
Deferred charges	108,432	—
	1,575,642	1,152,031
INCREASE IN WORKING CAPITAL	411,853	21,417
WORKING CAPITAL, BEGINNING OF YEAR	214,087	192,670
WORKING CAPITAL, END OF YEAR	$ 625,940	$ 214,087

Auditors' Report

To the Shareholders of
Pegasus Explorations Limited

We have examined the consolidated balance sheet of Pegasus Explorations Limited as at December 31, 1980 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Pegasus Explorations Limited (the parent company) was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of the subsidiary company.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
February 23, 1981

Abbott Harrison & Co.
CHARTERED ACCOUNTANTS

Notes to Consolidated Financial Statements

December 31, 1980

1. ACCOUNTING POLICIES

(a) Basis of consolidation

These financial statements consolidate the accounts of Pegasus Explorations Limited and its wholly owned subsidiary, Landusky Mining Inc., incorporated under the laws of the State of Montana on June 29, 1977.

The accounts of the subsidiary have been translated into Canadian funds as follows:

i) Current assets and liabilities — at the rate of exchange at the balance sheet date.

ii) Investment in Landusky Partners, mining properties, plant and equipment and deferred exploration and development expenditures — at the average rate of exchange obtained on advances made by the parent to defray these expenditures.

(b) Organization and mineral properties

On July 11, 1977 for 200,000 shares and $3,000 cash the company acquired from Scholz International Mining Inc. the latter's interest in certain patented and unpatented mining claims in the State of Montana subject to a net proceeds royalty interest and a working interest (varying from 9% to 50%) held by the original optionors, Wharf Resources Ltd. and L.R.M. Holdings, Inc. At the same time the company conveyed its interest in the claims to Landusky Mining Inc. ("Landusky"), its wholly owned subsidiary. After incurring certain expenses on the claims, Landusky conveyed its interest in the claims and the benefit of its expenditures thereon to Landusky Partners ("the partnership"), a limited partnership under the laws of Montana in which Landusky and Mr. E. A. Scholz were the general partners. Landusky has been the sole general partner since the death of Mr. E. A. Scholz in 1980.

The assets contributed to the partnership had a cost of $595,361 of which $185,000 U.S. is recognized by the partnership. The unrecognized portion is included by the company in "Investment in Landusky Partners".

2. PARTNERSHIP CONTRIBUTION

The investment in Landusky Partners was:

	1980	1979
Original lease costs	$ 165,500	$ 165,500
Development costs incurred by the company prior to contribution to the partnership	515,671	515,671
Company's share of the accumulated partnership operations	4,215,569	402,392
	$4,896,740	$1,083,563

3. ADVANCES TO LANDUSKY PARTNERS

The partnership agreement required Landusky Mining Inc. to lend funds to the partnership to bring development to a point sufficient to determine the economic feasibility of the mining project. Additionally, Landusky Mining Inc. loaned funds to the partnership after feasibility of the project had been determined. These partnership loans bear interest at 2% over the prime rate. The interest rate on these advances at December 31, 1980 was 23½%. Payment of principal on these loans is in the same priority as normal distributions between the general and limited partners.

4. FIXED ASSETS

	1980	1979
Assay, laboratory and office building	$ 45,850	$ 45,850
Leaching pads and ponds	154,205	154,205
Plant, office and laboratory equipment	114,546	106,971
Leasehold improvements	7,397	—
	321,998	307,026
Less: Accumulated depreciation	272,047	158,662
	49,951	148,364
Land	3,510	3,510
	$ 53,461	$151,874

The above fixed assets are carried at cost. Depreciation on plant and equipment is provided using the straight-line method over the estimated useful lives. Depreciation of leaching pads is provided using the unit-of-production method.

5. DEFERRED INCOME TAXES

Deferred income taxes arise because of timing differences between income recognition from Landusky Partners for financial statement purposes and income tax purposes. Investment and jobs tax credits are accounted for using the flow-through method.

6. SHARE CAPITAL

Authorized: 3,560,000 common shares without par value
Issued: 2,489,000 common shares as follows:

	Number	1980	1979
Balance, beginning of year	2,075,000	$2,859,397	$1,738,397
Issued during the year for services	18,300	60,390	—
Issued during the year for cash (1979 — 230,000)	395,700	2,380,530	1,121,000
Balance, end of year	2,489,000	$5,300,317	$2,859,397

7. SHARE OPTIONS

The company has granted various options to its employees and directors exercisable in 1981 through 1983 as follows:

Directors	110,000	shares
Employees	72,000	shares
	182,000	shares

8. STATUTORY INFORMATION

The company has paid direct remuneration to the directors and senior officers of the company as defined by the British Columbia Companies Act in the amount of $12,325.

Fees for legal services and engineering and consulting services have been paid to firms in which directors are partners or owners.

Corporate Information

DIRECTORS

Hobart Teneff
President
Spokane, Washington

Irma R. Scholz
West Vancouver, B.C.

Janice Duval
Mica, Washington

Peter R. Kutney
Calgary, Alberta

Milton H. Zink
Vice President and
Secretary
Vancouver, B.C.

OFFICERS

Hobart Teneff
President

John J. Crowhurst
Executive Vice President and
Chief Operating Officer

Reg. M.M. Rowe
Treasurer

Dale E. Scholz
Vice President

Milton H. Zink
Vice President and
Secretary

REGISTERED OFFICE

1710 - 1177 West Hastings Street
Vancouver, B.C. V6E 2L3

EXECUTIVE HEAD OFFICE

200 - 1055 West Hastings Street
Vancouver, B.C. V6E 2E9

TRANSFER AGENT & REGISTRAR

The Canada Trust Company
901 West Pender Street
Vancouver, B.C. V6C 1L7

SHARES LISTED

Vancouver Stock Exchange

BANKERS

Canadian Imperial Bank of Commerce
1066 West Hastings Street
Vancouver, B.C. V6E 3X1

AUDITORS

Abbott Harrison & Co.
Chartered Accountants
630 - 470 Granville Street
Vancouver, B.C. V6C 1V5

SOLICITORS

Tupper, Jonsson, Shroff and Zink
Barristers & Solicitors
1710 - 1177 West Hastings Street
Vancouver, B.C. V6E 2L3

Copies of the Company's 1980 Annual Report may be obtained from the Executive Head Office of the Company at 200 - 1055 West Hastings Street, Vancouver, B.C. V6E 2E9

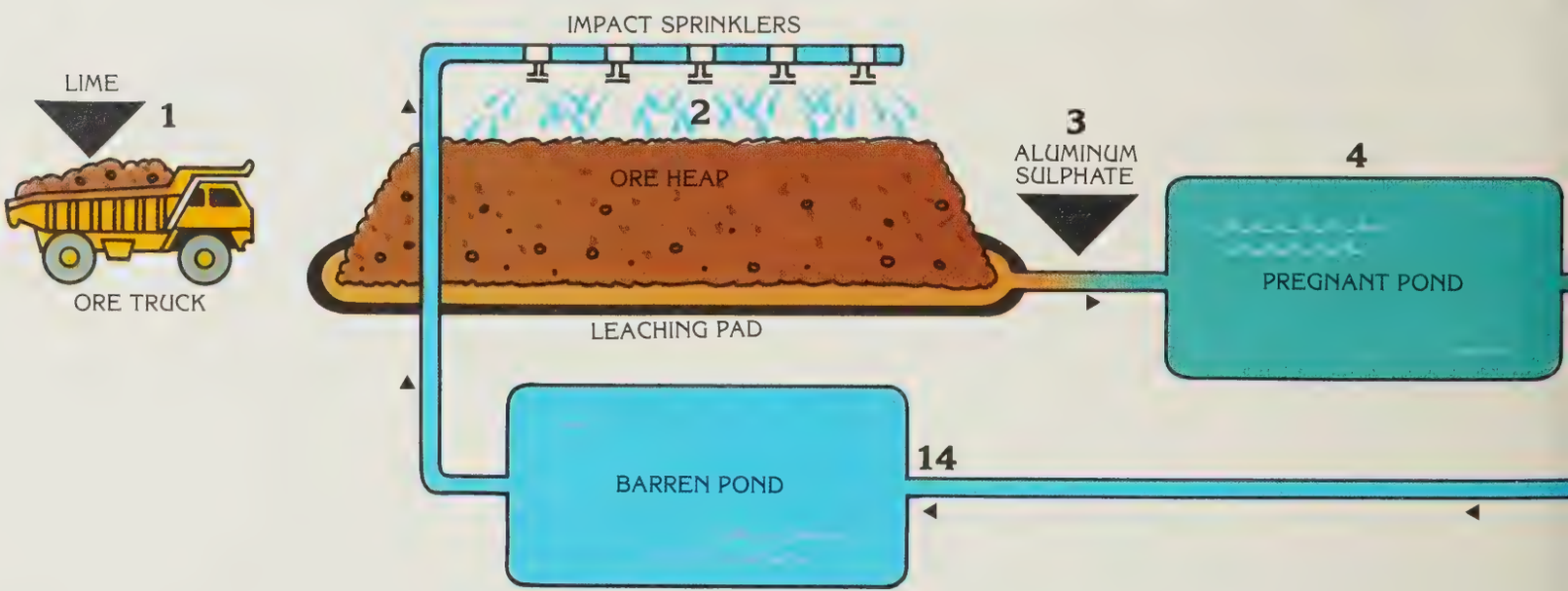
The mining operation.

A typical leach pad.

Heap Leaching Process

Several sequences of the closed circuit, continuous heap leaching process utilized by Argo and Pegasus diagrammed below also are shown in the accompanying photographs. The process begins with trucking of ore (1) to the leach pad (2) where a weak cyanide solution is sprinkled over the ore heap. Gold and silver is carried in solution through a "pregnant" pond (4) and a mechanical filtering process (5). Following removal of oxygen in a vacuum tower (6), zinc and lead acetate are added to the solution as a precipitating medium (7). A further filtering process (8) reduces the precipitate to a powder which is fired in a preliminary refining process and poured as Dore bullion (9). The bullion is then further refined (10) into pure gold and silver (11). From the filtering process (8), the leaching solution is recycled (12). Reagents are added in a surge tank (13) and the solution is stored in a "barren" pond (14), ready to be piped to the ore heap to repeat the process.

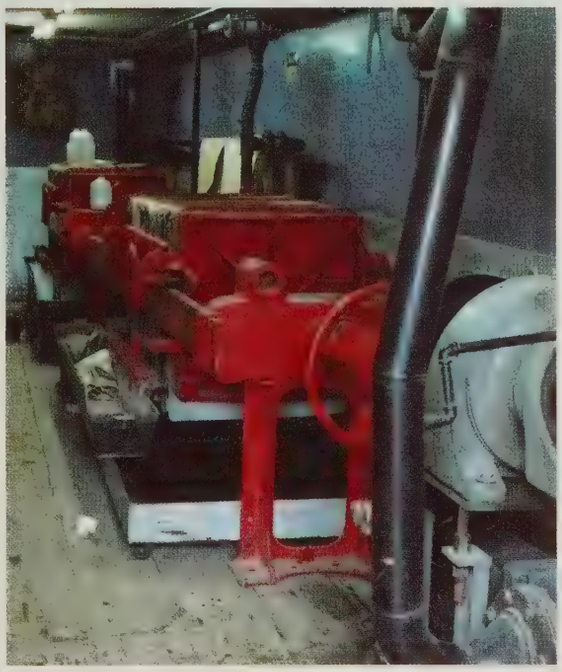
Large ponds are used to store the collection solution.



rinkling system.

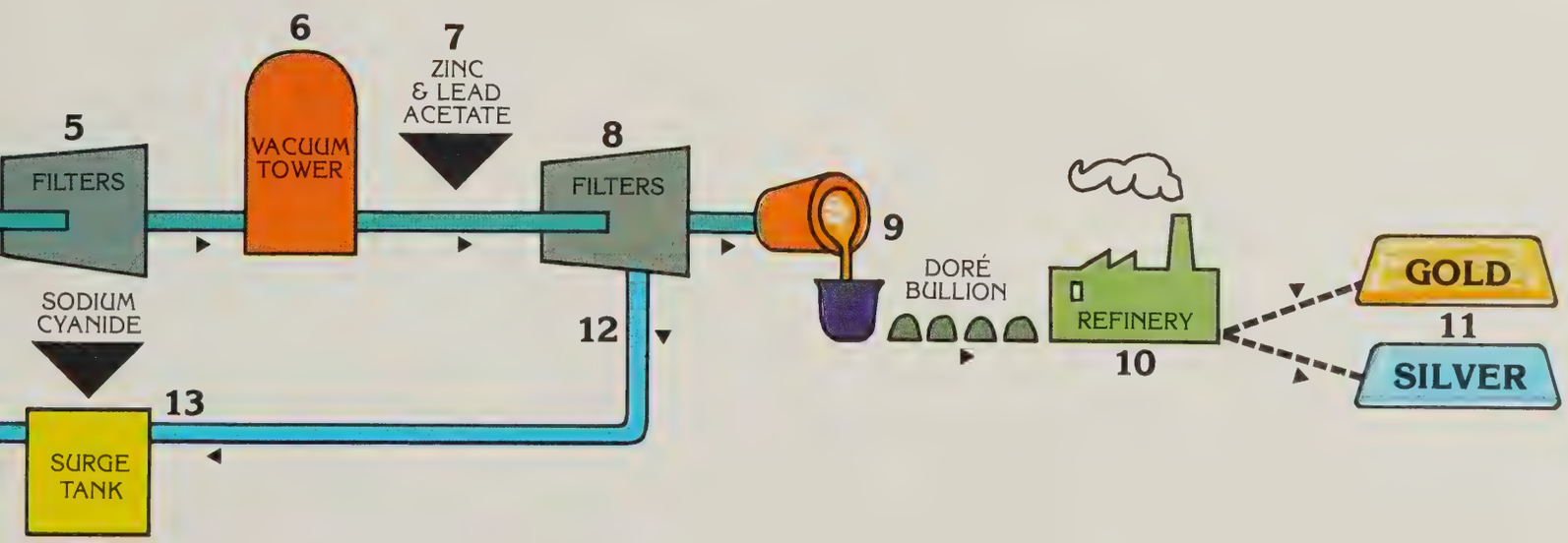
Gold and silver is recovered in solution which flows around the ore heap.

f the filtering steps.



The second filtering stage.

Pouring Dore bullion.



Initial stages in development of an open pit mining site.

Report to Shareholders

Full scale leaching operations at the Company's gold and silver property located in the Little Rocky Mountains near Zortman, Montana commenced in April of 1980. The Company experienced delays in the commencement of commercial production during the initial half of 1980 and again later in the year in connection with the construction and repair of leach pads. As a consequence, approximately 200,000 tons of ore mined and placed on leach pads was not leached by the end of the year. The net recoverable values of gold and silver at current prices of this unleached tonnage is in excess of $2.2 million. Despite the delays, which are not uncommon during start-up periods, the Company is satisfied that excellent progress was achieved during the initial production year.

Gross property revenues to December 31, 1980 amounted to $11,164,409 and Argo's share of net after-tax earnings was $1,658,701 or 69 cents per share. Through its wholly owned subsidiary, Zortman Mining Inc., Argo has a 59.5 percent interest in the mining operation.

Included in 1980 revenues was Argo's share of the proceeds from the sale of 15,385 ounces of gold and 16,848 ounces of silver. Average prices received for the year were U.S. $615.15 per ounce for gold and U.S. $15.56 per ounce for silver. 8,081 ounces of silver remained in inventory at year-end.

During the 1980 operating year, 675,000 tons of ore were added to the 220,000 tons in place at the end of 1979. In addition, the Company mined 620,000 tons of waste material. A major improvement in the processing chain was the installation of primary recovery furnaces at the mine site to enable precipitate to be refined into Dore bullion. Previously, precipitate was shipped to California for final processing into pure gold and silver ingots.

In addition to initiatives designed to improve upon the tested techniques utilized in the heap leaching process, the Company is aggressively pursuing other cost saving measures with an objective to reduce mining-processing costs experienced in 1980 by approximately 30 percent by the end of 1981.

Significant cost reductions are expected to be achieved following expiry in mid-1981 of the original mining and hauling contract entered into with a local contractor, and through economies of scale as a result of plans for a mining rate in excess of the 1.3 million tons of ore and waste mined during 1980.

The Company's senior professional staff was strengthened during the year with the appointment of Mr. John J. Crowhurst as Executive Vice President and Chief Operating Officer. Mr. Crowhurst formerly was Executive Vice President, Operations for McIntyre Mines Limited.

The sudden and unexpected death of Mr. Edgar A. Scholz on April 9th was a shock and a loss to the Company and his associates. Mr. Scholz had served as a Director and President for several years and had made a major contribution to the success of the initial planning and development of the Zortman property.

Mr. Peter R. Kutney, President of Coseka Resources Ltd. of Calgary was appointed to the Board of Directors in April and we look forward to a long association.

Outlook

Despite the recent downtrend in world prices for gold and silver, your Directors are confident the future has never been brighter for Shareholders of Argo Gold Mining Inc. We have successfully emerged as an operating mine with a proven, economically viable method of extracting gold and silver from low grade ore. Known reserves are adequate for many years of operation and the potential for substantially extending reserves is excellent. Many benefits will accrue as a result of the proposal to amalgamate with Pegasus Explorations Limited.

These several factors along with a positive long term outlook for bullion prices suggest the development of our property into an operating mine is propitiously timed.

On behalf of the Board

Hobart Teneff

HOBART TENEFF, President

Vancouver, B.C.
March 4, 1981

ARGO GOLD MINING INC.

Consolidated Balance Sheet *December 31, 1980*

ASSETS	1980	1979
CURRENT ASSETS		
Cash	$ 49,499	$ 11,959
Term deposit	900,000	—
Deposit	595	585
Accounts receivable	6,913	6,796
Advances to Zortman Partners	—	70,217
Advances to Landusky Partners	5,469	5,469
	962,476	95,026
INVESTMENT IN ZORTMAN PARTNERS		
Partnership contribution (Note 2)	2,347,482	332,568
Advances (Note 3)	3,864,377	1,857,285
	6,211,859	2,189,853
FIXED ASSETS (Note 4)	47,144	42,094
DEFERRED CHARGES AND OTHER ASSETS		
Deferred administration expenses	—	64,350
Deferred charges	134,957	—
Incorporation costs	435	620
	135,392	64,970
	$7,356,871	$2,391,943
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 33,890	$ 11,709
Advances from Pegasus Explorations Limited	30,400	—
Income taxes payable	341,472	—
	405,762	11,709
DEFERRED INCOME TAXES (Note 5)	298,714	—
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)	4,971,097	2,357,637
RETAINED EARNINGS	1,681,298	22,597
	6,652,395	2,380,234
	$7,356,871	$2,391,943

APPROVED BY THE DIRECTORS:

Director

Director

ARGO GOLD MINING INC.

Consolidated Statement of Earnings and Retained Earnings

Year-Ended December 31, 1980

	1980	1979
Revenue		
Share of net income (loss) of Zortman Partners	$2,014,914	$ (2,477)
Interest income	575,482	70,217
Other income	—	1,193
	2,590,396	68,933
Expenses		
Deferred administration expenses written off	64,350	—
Depreciation and amortization	8,759	6,176
General and administration	25,528	329
Interest exchange and finance costs	171,607	—
Legal and accounting	21,265	7,270
	291,509	13,775
Earnings before income taxes and extraordinary credit	2,298,887	55,158
Provision for income taxes		
Current	349,476	2,103
Deferred (Note 5)	298,714	—
	648,190	2,103
	1,650,697	53,055
Extraordinary credit from loss carry forwards	8,004	2,103
NET EARNINGS FOR YEAR	1,658,701	55,158
Retained earnings (deficit), beginning of year	22,597	(32,561)
RETAINED EARNINGS, END OF YEAR	$1,681,298	$ 22,597
Average shares outstanding	2,400,628	2,064,680
Earnings per share	$0.69	$0.03

Consolidated Statement of Changes in Financial Position

Year-Ended December 31, 1980

	1980	1979
SOURCE OF WORKING CAPITAL		
From operations		
Net earnings for year	$1,658,701	$ 55,158
Add (Deduct): items not involving current funds		
Depreciation	8,759	5,944
Amortization of organization expenses	185	232
Share of (income) loss of Zortman Partners	(2,014,914)	2,477
Deferred income taxes	298,714	—
Deferred administration expenses written off	64,350	—
	15,795	63,811
Sales of shares for cash	2,550,460	1,756,594
Issue of shares for services	63,000	—
	2,629,255	1,820,405
APPLICATION OF WORKING CAPITAL		
Advances to Zortman Partners	2,007,092	1,845,888
Deferred administration expenditures	—	30,679
Deferred charges	134,957	—
Office equipment	13,809	1,046
Transportation equipment	—	4,755
	2,155,858	1,882,368
INCREASE (DECREASE) IN WORKING CAPITAL	473,397	(61,963)
WORKING CAPITAL, BEGINNING OF YEAR	83,317	145,280
WORKING CAPITAL, END OF YEAR	$ 556,714	$ 83,317

Auditors' Report

To the Shareholders of
Argo Gold Mining Inc.

We have examined the consolidated balance sheet of Argo Gold Mining Inc. as at December 31, 1980, and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Argo Gold Mining Inc. was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of the subsidiary.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
February 23, 1981

Abbott Harrison & Co.
CHARTERED ACCOUNTANTS

Notes to Consolidated Financial Statements

December 31, 1980

1. ACCOUNTING POLICIES

(a) Basis of consolidation

These financial statements consolidate the accounts of Argo Gold Mining Inc. and its wholly owned subsidiary, Zortman Mining Inc., incorporated under the laws of the State of Montana on June 27, 1977.

The accounts of the subsidiary have been translated into Canadian funds as follows:

i) Current assets and liabilities — at the rate of exchange at the balance sheet date.

ii) Investment in Zortman Partners, mining properties, plant and equipment and deferred exploration and development expenditures — at the average rate of exchange obtained on advances made by the parent to defray these expenditures.

(b) Organization and mineral properties

On August 9, 1977 for 750,000 shares of the company acquired from Scholz International Mining Inc. the latter's interest in certain patented and unpatented mining claims in the State of Montana subject to a net proceeds royalty interest held by the original vendor, Gold Reserve Corporation, of 6% of the net profits from mining the claims until preproduction costs have been repaid and 30% thereafter. At the same time the company conveyed its interest in the claims to Zortman Mining Inc. ("Zortman"), its wholly owned subsidiary. After incurring certain expenses on the claims, Zortman conveyed its interest in the claims and the benefit of its expenditures thereon to Zortman Partners ("the partnership"), a limited partnership under the laws of Montana in which Zortman and Mr. E. A. Scholz were the general partners. Zortman has been the sole general partner since the death of Mr. E. A. Scholz in 1980.

The assets contributed to the partnership had a cost of $335,234 of which $169,000 U.S. is recognized by the partnership. The unrecognized portion is included by the company in "Investment in Zortman Partners".

2. PARTNERSHIP CONTRIBUTION

Components of the investment in Zortman Partners are:

	1980	1979
Original lease costs	$ 28,752	$ 28,752
Argo Gold Mining Inc. shares issued to Scholz International Mining Inc. at the deemed paid up amount	7,500	7,500
Development costs incurred by the company prior to contribution to the partnership	298,982	298,982
Company's share of the accumulated partnership income and (losses)	2,012,248	(2,666)
	$2,347,482	$332,568

3. ADVANCES TO ZORTMAN PARTNERS

The partnership agreement requires Zortman Mining Inc. to lend funds to the partnership to bring development to a point sufficient to determine the economic feasibility of the mining project. Additionally, Zortman Mining Inc. loaned funds to the partnership after feasibility of the project had been determined. These partnership loans bear interest at 2% over the prime rate. The interest rate on these advances at December 31, 1980 was 23½%. Payment of principal on these loans shall be in the same priority as normal distributions between the general and limited partners.

4. FIXED ASSETS

	1980	1979
Assay laboratory and office building	$36,951	$36,951
Office equipment	18,480	4,904
Transportation equipment	4,755	4,755
	60,186	46,610
Less: Accumulated depreciation	23,801	15,275
	36,385	31,335
Land	10,759	10,759
	$47,144	$42,094

The above fixed assets are carried at cost. Depreciation is provided using the straight-line method over the estimated useful lives.

5. DEFERRED INCOME TAXES

Deferred income taxes arise because of timing differences between income recognition from Zortman Partners for financial statement purposes and income tax purposes. Investment and jobs tax credits are accounted for using the flow-through method.

6. SHARE CAPITAL

Authorized: 5,000,000 common shares with no par value
Issued: 2,658,047 common shares as follows:

	Number	1980	1979
Balance, beginning of year	2,293,847	$2,357,637	$ 601,043
Issued during year for services	21,000	63,000	—
Issued during year for cash (1979 — 450,000)	343,200	2,550,460	1,756,594
	2,658,047	$4,971,097	$2,357,637

7. SHARE OPTIONS

The company has granted various options to its employees and directors exercisable in 1981 through 1983 as follows:

	Directors	135,000 shares
	Employees	72,000 shares
Balance, end of year		207,000 shares

8. STATUTORY INFORMATION

The company has paid direct remuneration to the directors and senior officers of the company as defined by the British Columbia Companies Act in the amount of $12,325.

Fees for legal services and engineering and consulting services have been paid to firms in which directors are partners or owners.

ARGO GOLD MINING INC.

Corporate Information

DIRECTORS

Hobart Teneff
President
Spokane, Washington

Irma R. Scholz
West Vancouver, B.C.

Peter R. Kutney
Calgary, Alberta

Milton H. Zink
Vice President and
Secretary
Vancouver, B.C.

OFFICERS

Hobart Teneff
President

John J. Crowhurst
Executive Vice President and
Chief Operating Officer

R.M.M. Rowe
Treasurer

Dale E. Scholz
Vice President

Milton H. Zink
Vice President and
Secretary

REGISTERED OFFICE
1710 - 1177 West Hastings Street
Vancouver, B.C. V6E 2L3

EXECUTIVE HEAD OFFICE
200 - 1055 West Hastings Street
Vancouver, B.C. V6E 2E9

TRANSFER AGENT & REGISTRAR
The Canada Trust Company
901 West Pender Street
Vancouver, B.C. V6C 1L7

SHARES LISTED
Vancouver Stock Exchange

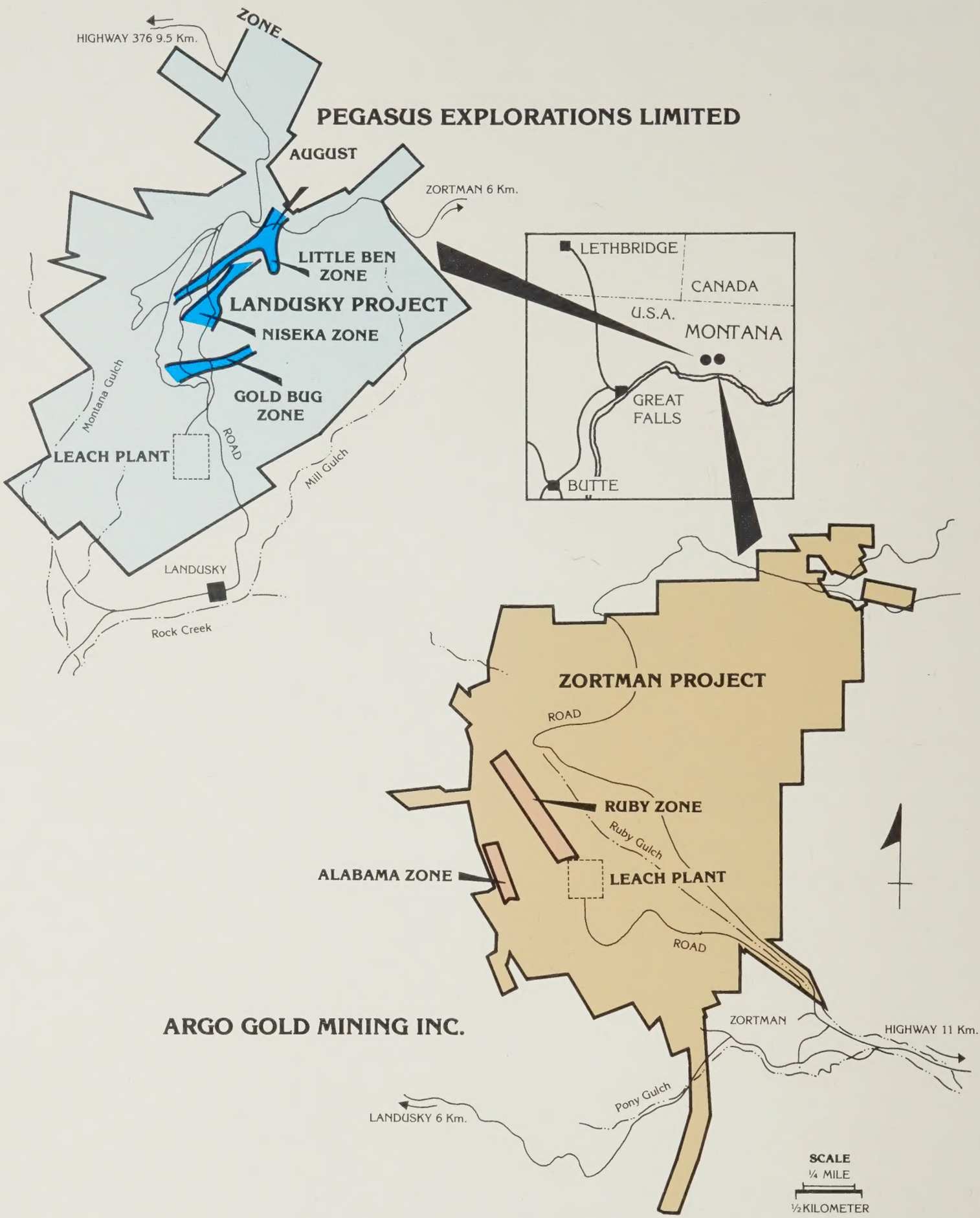
BANKERS
Canadian Imperial Bank of Commerce
1036 West Georgia Street
Vancouver, B.C. V6E 3C7

AUDITORS
Abbott Harrison & Co.
Chartered Accountants
630 - 470 Granville Street
Vancouver, B.C. V6C 1V5

SOLICITORS
Tupper, Jonsson, Shroff and Zink
Barristers & Solicitors
1710 - 1177 West Hastings Street
Vancouver, B.C. V6E 2L3

Copies of the Company's 1980 Annual Report may be obtained from the Executive Head Office of the Company at 200 - 1055 West Hastings Street, Vancouver, B.C. V6E 2E9

Mineral Properties



PEGASUS EXPLORATIONS LIMITED ARGO GOLD MINING INC.

SUITE 200 - 1055 WEST HASTINGS ST., VANCOUVER, B.C. V6E 2E9

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